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SECURITIES A

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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING January 01, 2011 ENDING December 31, 2011

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Chardan Capital Markets, LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

17 State Street, Suite 1600

New York (City) New York (No. and Street) (State) 10004 (Zip Code)

OFFICIAL USE ONLY

FIRM ID. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Steven Urbach 646-465-9003
(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Lilling & Company, LLP

10 Cutter Mill Road (Address) Great Neck (City) NY (Name - If Individual, State Last, First, Middle Name) (State) 11021 (Zip Code)

CHECK ONE

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the exemption. See section 240, 17a-5(e)(2).

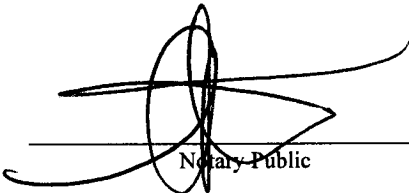
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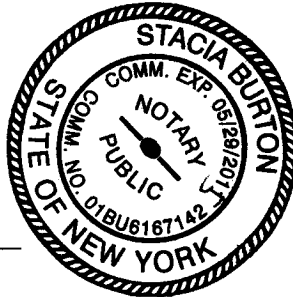
OATH OR AFFIRMATION

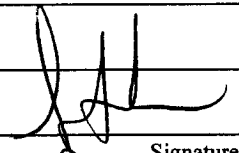
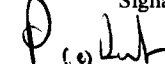
I, Steven Urbach swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of

Chardan Capital Markets, LLC, as of

December 31, 2011, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:


Notary Public




Signature

Title

This Report ** contains (check all applicable boxes):

- ☒ (a) Facing Page
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss)
- ☐ (d) Statement of Cash Flows.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of Consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☐ (o) Independent Auditor's Report on Internal Control.

** For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

CHARDAN CAPITAL MARKETS, LLC

***REPORT ON AUDIT OF
STATEMENT OF FINANCIAL CONDITION***

DECEMBER 31, 2011

Filed in accordance with Rule 17a-5(e)(3) as a PUBLIC DOCUMENT

Lilling & Company LLP

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Member
Chardan Capital Markets, LLC
New York, New York

We have audited the accompanying statement of financial condition of Chardan Capital Markets, LLC as of December 31, 2011 that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Chardan Capital Markets, LLC at December 31, 2011 in conformity with accounting principles generally accepted in the United States.



CERTIFIED PUBLIC ACCOUNTANTS

Great Neck, New York

February 20, 2012

CHARDAN CAPITAL MARKETS LLC

STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2011

ASSETS

Cash	\$ 829,361
Loan receivable, related party	683,153
Due from broker	493,959
Accounts receivable	376,404
Securities owned, marketable, at fair value	335,602
Securities owned, not readily marketable, at fair value	66,409
Property and equipment, net	163,484
Other assets	178,749
	<hr/>
	\$ 3,127,121

LIABILITIES AND MEMBER'S EQUITY

Liabilities

Accrued expenses	\$ 953,988
Due to clearing broker	106,683
Securities sold, not yet purchased, at fair value	24,026
	<hr/>
	1,084,697

Member's equity

2,042,424

\$ 3,127,121

See notes to Statement of Financial Condition

CHARDAN CAPITAL MARKETS LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2011

1. ORGANIZATION AND NATURE OF BUSINESS

Chardan Capital Markets, LLC (the "Company") is organized to be active in various aspects of the securities industry and is registered to be a broker-dealer with the Financial Industry Regulatory Authority and the Securities and Exchange Commission. The Company is a non-clearing broker and does not handle any customer funds or securities. There were no liabilities subordinated to claims of general creditors during the year ended December 31, 2011. The Company is 100% owned by Chardan Securities LLC and is located in New York City.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Codification

The Financial Accounting Standards Board ("FASB") has issued FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, effective for periods ending after September 15, 2009. This Statement establishes the FASB Accounting Standards Codification ("ASC") as the single source of authoritative United States generally accepted accounting and reporting standards for nongovernmental entities, in addition to guidance issued by the SEC and these financial statements are referenced accordingly.

Property and Equipment

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation of assets is provided using the straight-line method for financial statement reporting purposes over the estimated useful lives of the assets, which range from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the remaining lease term or the estimated useful life of the asset.

Income Taxes

The Company is organized as a limited liability company and is a disregarded entity for income tax purposes. No provision has been made for federal and state income taxes since these taxes are the responsibility of the sole-member. The Company is subject to New York City unincorporated business taxes.

CHARDAN CAPITAL MARKETS LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2011

In accordance with ASC 740, *Income Taxes*, the Company is required to disclose unrecognized tax benefits resulting from uncertain tax positions. At December 31, 2011, the Company did not have any unrecognized tax benefits or liabilities. The Company operates in the United States and in state and local jurisdictions, and the previous three years remain subject to examination by tax authorities. There are presently no ongoing income tax examinations.

Securities Transactions and Commissions

Securities transactions are recorded on a trade date basis. Commissions, trading activity and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

Securities owned and securities sold, not yet purchased, are recorded at current market value. Securities not readily marketable are valued at fair value as determined by management, which approximates estimated realizable value. Securities not readily marketable include investment securities that cannot be offered or sold because of restrictions or conditions applicable to the securities or to the Company.

Investment Banking/Other Fee Income

Investment banking revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from providing merger-acquisition and financial restructuring advisory services. Investment banking fees are recorded on offering date, sales concessions on settlement date, and underwriting fees at the time the underwriting is completed and the income is reasonably determinable.

Significant Credit Risk and Estimates

The Company's clearing and execution agreement provides that its clearing firm, Penson Financial Services, Inc.'s ("Penson") credit losses relating to unsecured margin accounts receivable of the Company's customers are charged back to the Company.

In accordance with industry practice, Penson records customer transactions on a settlement date basis, which is generally three business days after the trade date. Penson is therefore exposed to risk of loss on these transactions in the event of the customer's inability to meet the terms of its contracts, in which case Penson may have to purchase or sell the underlying financial instruments at prevailing market prices in order to satisfy its customer-related obligations. Any loss incurred by Penson is charged back to the Company.

CHARDAN CAPITAL MARKETS LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2011

The Company, in conjunction with Penson, controls off-balance sheet risk by monitoring the market value and marking securities to market on a daily basis and by requiring adjustments of collateral levels. Penson establishes margin requirements and overall credit limits for such activities and monitors compliance with the applicable limits and industry regulations on a daily basis.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of the Company to use estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Valuation of Investments

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 – Inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.

Level 3 – Are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.)

CHARDAN CAPITAL MARKETS LLC**NOTES TO STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2011****3. SECURITIES OWNED / SECURITIES SOLD, NOT YET PURCHASED**

Securities owned consist of trading securities in U.S. public entities of \$335,602 at quoted market prices.

Securities, not readily marketable owned consist of securities in U.S. public entities of \$66,409 at estimated fair value.

Securities sold, not yet purchased, consist of securities in U.S. public entities of \$24,026 at estimated fair value.

4. FAIR VALUE MEASUREMENTS

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2011:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Securities owned	\$ 335,602	\$ -	-	\$ 335,602
Securities owned, not readily marketable	-	-	66,409	66,409
	<u>\$ 335,602</u>	<u>\$ -</u>	<u>\$ 66,409</u>	<u>\$ 402,011</u>
Liabilities				
Securities sold, not yet purchased	<u>\$ 24,026</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 24,026</u>

Level 3 Change in Financial Assets and Liabilities

	<u>Beginning Balance</u>	<u>Realized Gains (Losses)</u>	<u>Purchases, Issuances and Settlements</u>	<u>Ending Balance</u>
Assets				
Securities owned, not readily marketable	<u>\$ 114,122</u>	<u>\$ (140,014)</u>	<u>\$ 92,301</u>	<u>\$ 66,409</u>

CHARDAN CAPITAL MARKETS LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2011

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2011:

Furniture and Fixtures	\$ 189,786
Computer equipment and software	411,369
Leasehold improvement	<u>91,308</u>
	\$ 692,463
Less accumulated depreciation and amortization	<u>528,979</u>
	<u>\$ 163,484</u>

Depreciation and amortization expense was \$92,200 for the year ended December 31, 2011.

6. COMMITMENT AND CONTINGENCIES

Lease

The Company entered into a lease for office space, which was amended and expires on July 31, 2013 and calls for monthly payments and specified escalations. Included in operations for 2011 is rent expense of approximately \$542,000.

Future minimum annual lease payments are approximately as follows:

For the Year Ending December 31, 2011

2012	\$ 256,000
2013	<u>250,000</u>
	<u>\$ 506,000</u>

Letter of Credit

The Company was issued letter of credit of approximately \$75,000 for the rent security deposit required for the office lease. The letter of credit is secured by a money market account, which is restricted and is included in other assets.

Line of Credit

The Company has a line of credit with a bank for \$50,000, with an interest rate of 3.25% at December 31, 2011. There were no borrowings on this line of credit at December 31, 2011.

CHARDAN CAPITAL MARKETS LLC

NOTES TO STATEMENT OF FINANCIAL CONDITION DECEMBER 31, 2011

Litigation

The Company is subject to various claims and arbitration in the normal course of business. The Company believes that the resolution of these matters will not have a material impact on these financial statements.

7. COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3

The Company is exempt for the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934 pursuant to Paragraph (k)(2)(ii). As an introducing broker, the Company clears customer transactions on a fully disclosed basis with Penson. Penson carries all of the accounts of such customers and maintains and preserves such books and records.

8. RELATED PARTY TRANSACTIONS

As of December 31, 2011, loans receivable from related parties consists of the following:

	<u>Amount</u>	<u>Maturity</u>	<u>Interest</u>
Loans to employees	\$ 483,153	Due on demand	Non-interest bearing
Loan to parent	<u>200,000</u>	August 15, 2014	0.3% per annum
	<u>\$ 683,153</u>		

9. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1.) At December 31, 2011, the Company had net capital of \$375,038, which was \$275,038 in excess of its required net capital of \$100,000. The Company had a percentage of aggregate indebtedness to net capital of 283% as of December 31, 2011.

10. PROFIT SHARING PLAN

The Company sponsors a discretionary match 401(k) plan, which covers substantially all employees. Employee contributions to the plan are at the discretion of eligible employees. The Company match to the plan was approximately \$33,000 for the year ended December 31, 2011.

CHARDAN CAPITAL MARKETS LLC

***NOTES TO STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2011***

11. SUBSEQUENT EVENTS

The Company has evaluated and noted no events or transactions that have occurred after December 31, 2011 that would require recognition or disclosure in the financial statements.